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## NATIONAL AFFAIRS

## Reagan's CIA Troubles

When a bantamweight businessman named Max Hugel was put in charge of cloak-and-dagging for the CIA, veterans of the intelligence agency were shocked. The Brooklyn-born Hugel had only one real qualification for the super-sensitive post of deputy director for operations: a connection with CIA Director William J. Casey, with whom he had worked in Ronald Reagan's Presidential campaign. So when Hugel resigned last week, just hours after the appearance of a newspaper story charging him with past financial improprieties, the fallout settled mostly on his CIA boss. Casey had other problems: two judges, it turned out, had cited him for dubious financial dealings—and suddenly the Reagan Administration had a potential political liability on its hands.

For the record, White House officials insisted they had full confidence in the rump, mumble-prone Casey, a former Securities and Exchange Commission chairman and Under Secretary of State for Economic Affairs. But chairman Barry Goldwater of the Senate intelligence committee ordered a staff investigation of Casey's business dealings, and other members were pressing for a full-bore examination of Casey's career, of his judgment in bringing Hugel to the CIA and of agency security procedures that failed to red-flag Hugel's past. Top Reagan aides conceded privately that a formal inquiry—or more disclosures about Casey in the press—could make the director's position untenable.

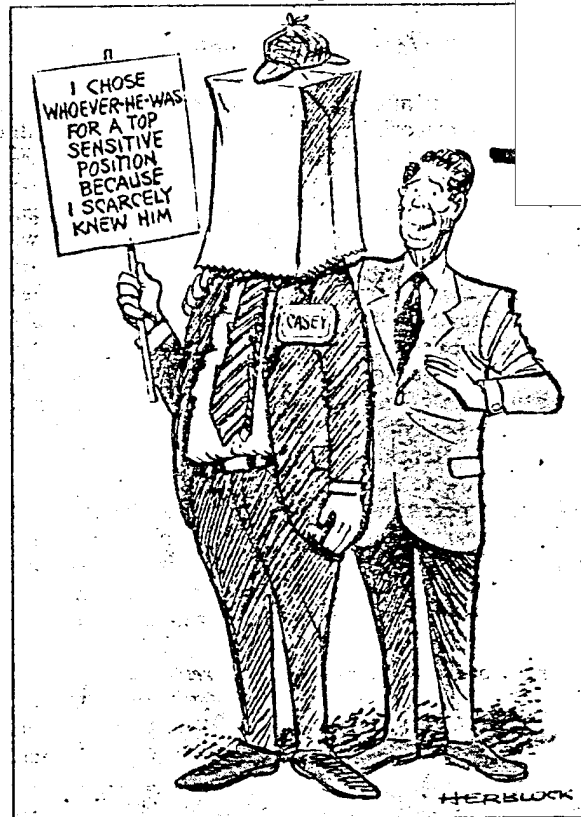
**Neophyte:** Ironically, one of Casey's principal goals had been to lower the CIA's profile and strengthen its authority and credibility after the embarrassments of recent years. But Casey brought at least one new problem with him to the agency in the person of Max Hugel—a toupee-topped former importer of Japanese sewing machines and typewriters. Hugel joined the Reagan team last year in New Hampshire as a political neophyte carrying the endorsement of powerful publisher William Loeb. Hugel quickly impressed Casey with what other top campaign aides thought were "harebrained" schemes to mobilize volunteers and voters. He was "a bull in a china shop," one Reagan worker recalled. "People who saw

gel and moved him through several post before putting him in charge of top-secret intelligence gathering and clandestine operations. He saw Hugel's background in business overseas as useful in arranging "cover" for secret agents, and he wanted a tough-minded administrator whom he felt he could trust.

Hugel was cleared by the CIA's Office of Security in just one week, and that investigation failed to turn up the long-running battle with two former stockbrokers that prompted his resignation. The two men

*'We have complete confidence in what's his name'*

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*Hugel (left), Casey: Charges of dubious financial dealings—and a potential political liability*

Mark Reinstein—Photoreporters

Bruce Hoertel



despite advice from CIA general counsel Stanley Sporkin that there was no clear-cut violation of law involved. Shortly after the Post story appeared, Casey advised White House chief of staff James A. Baker III that Hugel would resign. Hugel did, and Casey replaced him with CIA officer John Stein, a veteran station chief with solid experience in the agency's Asian, African and Soviet operations. The White House was delighted. "There were a lot of memories around here of the Bert Lance affair when this thing popped," said one top staffer. "There was a great desire to have it over with."

**Circular:** But it wasn't. As questions mounted about Casey's appointment of Hugel, it was disclosed that an interim ruling by a Federal judge in New York last May cited Casey and other officials of a failed agribusiness company called Multiponics, Inc., for knowingly misleading prospective investors in 1968. Judge Charles E. Stewart Jr. concurred with earlier findings that Casey and the other officials had distributed an offering circular containing false and misleading information—failing, for example, to mention that Multiponics had assumed more than \$2.7 million in mortgage debts from its founders and also had exaggerated the operations

\*NEWSWEEK has learned that the McNell brothers originally took their tale to a New York